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TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
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DEPT PASS TO USTDA HSTEINGASS/JNAGY

E.O. 12958: N/A
TAGS: EAGR EAIR ECON ECPS EFIN EINV ENRG EPET ETRD BEXP
KIPR, KWMN, PHUM, SENV, ASEC, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
SEPTEMBER 29 TO OCTOBER 3, 2008

¶1. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of September 29 to October 3, 2008, including the following:

-- MOCI PROPOSES EXPANSION OF FDI IN RETAIL
-- NEW MANUFACTURING POLICY IDEAS -
MOVE IN RIGHT DIRECTION?
-- TWO LARGE RAILWAY PROJECTS WITH
US INVOLVEMENT CHUGGING FORWARD
--ECONCOUNS VISIT TO KOLKATA
-- POLITICS AS USUAL IN WEST BENGAL
-- USTDA GRANTS CONTINUE TO SUPPORT U.S.-INDIA ENERGY DIALOGUE

MOCI PROPOSES EXPANSION OF FDI IN RETAIL

¶2. (U) Following Commerce Minister Nath's comments in France on October 1 that India will look at removing the 51% cap on FDI in single-brand retail, local press reported in Delhi that the Ministry had forwarded a proposal for 100% FDI in single brand retail to the Cabinet for approval. The proposal supposedly also includes allowing FDI in multi-brand retail for the first time, up to 51%, although limited to single-industry retailers of electronics, computers, sporting goods, and watches. Grocery and consumer goods retail would remain off-limits to FDI for the time being. The proposal is also reported to include a requirement that foreign retailers with more than 51% equity would have to source at least 50% of their goods from within India. The Ministry had pushed a proposal in 2007 for specialty multi-brand FDI, but it was opposed by the Left parties. With the Left's withdrawal of support to the government in July, the Ministry perceives a chance to enhance FDI in retail. Increasing FDI in retail does not require legislation, only Cabinet approval.

NEW MANUFACTURING POLICY IDEAS -
MOVE IN RIGHT DIRECTION?

¶3. (U) A senior group of advisors headed by the National Manufacturing Competitiveness Council (NMCC) Chairman V. Krishnamurthy recently released its report recommending a

manufacturing policy to reverse deceleration in growth in the sector. It includes proposals to link FDI approvals to commitments on technology transfer. The report makes several recommendations for specific issues relating to technology transfer, trade, tax, public sector enterprises, infrastructure development, and labor reforms while emphasizing the state's intervention for domestic value addition and small and medium enterprises protection in view of increased competition by Chinese goods.

¶4. (U) According to the report, India's FDI policy for the manufacturing sector is "very liberal" and it recommends re-examination of the present policy of permitting 100 percent subsidiaries of foreign companies in this sector. Another recommendation points to the need to counter the damage to the domestic industry due to increased duty-free imports of power generating equipment. The report also highlights the original purpose of promoting SEZs for attracting investment into the manufacturing sector and recommends the GOI consider SEZs to be economic zones with no fiscal concessions but with world class infrastructure.

¶5. (U) In January 2008, Prime Minister Singh established a core group of secretaries representing finance, revenue, commerce, textiles, and industry to carefully examine decelerated growth of the manufacturing sector and make recommendations to improve productivity of this sector. The Confederation of Indian Industry (CII) has welcomed the core group's recommendations. In a press release, CII stated that the NMCC-supported manufacturing policy will help give the required thrust to manufacturing growth over the short- and long-term. According to industry estimates, India's manufacturing sector has been contributing about 17 percent to the

GDP and has witnessed growth of 7.8 percent in 2007-08.

¶6. (SBU) COMMENT: While the report advances some recommendations that would focus directly on manufacturing development issues, it also contains worrisome protectionist recommendations such as the FDI limitations. These provisions not only fall short of addressing the real problems plaguing slower growth rates in manufacturing, but could harm the sector by discouraging competition. Post will monitor reaction by the government and industry to the NMCC's manufacturing policy in the coming weeks. END COMMENT.

MAJOR RAILWAY TENDER TO BE AWARDED
TO ONE OF TWO US FIRMS CHUGGING FORWARD

¶7. (U) The GOI decided last week to release the Request for Proposal for a $5 billion diesel locomotive project, which will be awarded to one of two American firms. Globally only GE and EMD produce diesel locomotives; they are, therefore, the only bidders on the project to supply 1000 diesel locomotives and build a locomotive factory in Bihar. The RFP includes $3 billion for equipment to be procured over 10 years, with production gradually shifting to the new Indian plant. The remaining $2 billion will go towards maintenance and service of the locomotive fleet. Awarding the project is expected to take place in the first quarter of 2009.

ECONCOUNS VISIT TO KOLKATA

¶8. (U) During his Kolkata visit September 29-October 1, U.S. Embassy, New Delhi, Econ Minister Counselor John Davison met prominent Kolkata contacts, including senior officials of the West Bengal government, business journalists, industry associations AMCHAM, Indian Chamber of Commerce and NASSCOM, and independent consultants PricewaterhouseCoopers. Davison also addressed MBA students at the Indian Institute of Social Welfare and Business Management which is India's first business school.

¶9. (SBU) Two subjects dominated conversations Congen interlocutors had with Davison. The status of the U.S. financial markets was the top concern. NASSCOM sources expressed concern that Indian IT companies would soon get requests from their U.S. clients to delay or reschedule payments for services rendered, or

cancellation/postponement of planned IT infrastructure investments in the mid-term. A business journalist predicted that the U.S. financial crisis would lead to a severe long term financing crunch for energy infrastructure projects in India, slowing down investment and expansion in other sectors of the economy. However, there was a general consensus that the Indian financial system was more immune to the U.S. crisis than most because it is more tightly regulated relative to others.

¶10. (SBU) The situation in Singur also featured prominently in the conversations. There was a consensus that the Singur incident will have an adverse impact on West Bengal's image as an investment destination. But many also argued that the state has strong economic fundamentals and there is a consensus on the need for industrialization. Trinamul Congress leader and former Member of Parliament (Rajya Sabha) Mr. Dinesh Trivedi (please protect) provided a different - his party's -- perspective on the controversy. He said Trinamul Congress was not averse to either the project or investor (Tata Motors). His party's opposition was to the unfair manner in which the entire project was conceived and managed.

¶11. (SBU) Trivedi said that, since the state government was extending fiscal incentives to Tata, including a sales tax holiday, the public had the right to know how their money was being used. He alleged that Tata Motors collected hefty amounts by sub-leasing the land to component suppliers who set up their facilities adjacent to the Nano plant. Large profits from land speculation enable Tata to sell the Nano cheaply at USD 2,500. Trivedi compared it to the U.S.

bailout of financial institutions, i.e., the West Bengal government was diverting public money to enrich a private investor.

POLITICS AS USUAL IN WEST BENGAL

¶12. (SBU) Political wrangling also threatened to derail the German Metro cash and carry project in Kolkata. Blocking the project was the Forward Bloc party which is the Communist Party's (CPM's) coalition ally in West Bengal. A minister loyal to the Forward Bloc runs the Department of Agricultural Marketing which grants licenses to vendors of farm products. The Forward Bloc is opposed to any move toward allowing Foreign Direct Investment (FDI) in multi-brand retail (which is currently banned nationally), and although Metro will run only wholesale - and not retail - operations in Kolkata, the Agricultural Marketing Department refused to renew the license it granted to the company in 2006. With Metro ready to start its operations, the entire project was threatened and the German consul general in Kolkata intervened, stating publicly that investment from his country will bypass West Bengal if Metro's license was not renewed.

¶13. (SBU) In an unprecedented move, Chief Minister Buddhadeb Bhattacharjee exercised his executive power and directed the Agricultural Marketing department to renew Metro's license. This created a political crisis, with Forward Bloc threatening to withdraw from the state government. Later, the Left Front political leaders met and resolved the crisis. It was decided that Metro's license will be renewed by October 10 with "certain conditions." These "conditions" will likely include a provision that each billing for an identified product must not be less than Rs. 50,000.

USTDA GRANTS CONTINUE TO SUPPORT U.S.-INDIA ENERGY DIALOGUE

¶14. (U) This week USTDA ended FY 2008 by awarding two grants over the last two days, totaling almost $900,000 that further the agency's commitment to the objectives of the U.S.-India Energy Dialogue. Since 2005, USTDA has provided over $3.5 million, and leveraged more than an additional $1 million, in funding for project studies, not only in refinery process modernization, but also in coal bed methane development and alternate coal mining technology, as well as technical assistance in the development of new regulatory structures for India's expanding oil and gas industries.

¶15. (U) The first grant, to India's Petroleum and Natural Gas Regulatory Board (PNGRB), will be used to promote competition in India's oil and gas sector through the development of a more transparent regulatory environment. The second grant, to Hindustan Petroleum Corporation Limited (HPCL), will fund investment analysis on a refinery bottoms upgrades project for its refinery in Mumbai.

¶16. (U) The PNGRB was established by the Government of India in 2006 to develop and consolidate regulation of many critical areas of the growing Indian oil and gas business. Currently, the agency is seeking expert assistance from partner countries in order to develop and improve its competencies in regulatory processes and rulemaking. The $348,339 USTDA grant awarded today will support this effort by funding a series of technical workshops in India and the United States, site visits to U.S. federal and state regulatory authorities and private industry, and internships for PNGRB personne at a U.S. public utility commission. In particular, the grant will assist the PNGRB in developing midstream and downstream regulations in the areas of pricing, utility accounting and monitoring, safety, and licensing of infrastructure development for the oil and gas sector.

¶17. (U) The PNGRB has selected the National Association of Regulatory Utility Commissioners (NARUC), a non-profit organization based in Washington D.C., as the contractor to perform the USTDA-funded technical assistance. NARUC brings considerable experience to the project, having represented the regulatory utility

commissioners (oil and gas, water, and electricity) from each of the state governments in the United States for more than 100 years. In addition to the USTDA grant, NARUC will provide additional resources toward the project's completion.

¶18. (U) HPCL is planning to upgrade its petroleum refinery in Mumbai, India with the addition of a new processing unit that will enable it to convert heavy end residual products derived in the refining process to lighter end and higher value products. The $597,882 USTDA-funded assistance will support this effort by determining the viability of applying a proprietary technology from Kellogg Brown and Root LLC (KBR) of Houston, Texas, called Residuum Oil Supercritical Extraction (ROSE(tm)), to achieve HPCL's objectives. HPCL has selected KBR to perform the study. In addition to the USTDA grant, both KBR and HPCL will contribute additional resources towards the study's completion.

¶19. (U) Visit New Delhi's Classified Website:
http://www.state.sgov/p/sa/newdelhi

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